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E.O. 12958: DECL: 2/4/2019  
TAGS: [EFIN](#) [ECON](#) [EINV](#) [PREL](#) [PGOV](#) [AE](#)  
SUBJECT: DESPITE POSITIVE SPIN, DUBAI'S ECONOMIC WOES CONTINUE

REF: A. A. ABU DHABI 11  
[1](#)B. B. 08 DUBAI 464

CLASSIFIED BY: Paul Sutphin, Consul General, Consulate General  
Dubai, UAE.  
REASON: 1.4 (b), (d)

[1](#)1. (S/NF) Summary. The Dubai government's continued reluctance to discuss details of its financial health, combined with official statements that the emirate will make due on existing monetary obligations, maintain a positive (albeit reduced) 2009 GDP, and quickly rebound from the world wide crisis in 2010, has increasingly strained local business leaders' and residents' credulity. Few are willing to publically discuss the depth of potential problems facing the emirate and press coverage remains largely positive. However, credible rumors of a USD 500 million Dubai para-statal company loan default, continued lay-offs, and virtual closures of several Dubai government (or ruling family)-owned companies indicate ongoing financial woes. Amplifying the need for long-term change in Dubai's economic structure, the regional managing director of McKinsey and Company recently speculated the emirate's total debt stands at 150 billion USD, almost double the 80 billion USD "official" figures released in late November 2007. End Summary.

USD 80 billion vs 150 Billion in Debt  
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[1](#)2. (C) In late November 2008, Dubai leadership announced that total emirate debt stands at USD 80 billion (USD 10 billion for the public sector and USD 70 billion for government-owned businesses). However, on January 20, speaking before an audience of 250 key business leaders and government officials (including the Ambassador) at Paradigm 2009, Kito de Boer, Senior Director of McKinsey and Company in the Middle East, valued total Dubai debt at USD 150 billion, attributing USD 80 billion of the total to "Dubai Inc" parastatals. In the closed-to-the-press event, de Boer speculated Dubai will not be able to "ride out" the business cycle, as it will need to raise an additional USD 20 - 30 billion over the next two to three years. (Note: McKinsey has had a long presence in Dubai and has done extensive work for the ruling family, including helping establish UAE VP, PM and Dubai Ruler Sh. Mohammed bin Rashid al Maktoum's (MbR) Executive Office. End Note)

Business Not Buying the Spin  
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[1](#)3. (C) Ironically highlighting the dissonance between public message and private sentiments, Paradigm audience members participated in anonymous electronic polls conducted throughout the event. Most speakers were loath to deviate from the Dubai government established party line that the emirate's business model is solid, there will be downturn (but still positive GDP growth) in 2009 followed by a 2010 rebound. Program participants on the other hand registered far deeper concern,

with 52 percent indicating current business conditions are catastrophic and 61 percent expressing alarm at the lack of government transparency and sound business strategies.

#### Dubai Inc.'s USD 500 Million Loan Default

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14. (S/NF) Behind closed doors, post is hearing disturbing tales of Dubai scrambling to raise cash and meet obligations. According to a highly credible source within the Dubai International Finance Center (DIFC), Dubai World's Nakheel subsidiary (developer of the Palm Islands, among others) has moved into default status on a USD 500 million loan underwritten by a Dutch financial institution (NFI). As underwriter of the credit insurance for the issuing bank, the Dutch Ministry of Finance is deeply concerned about this and a slow down in payments on other outstanding Dubai World loans. The DIFC official indicated that MbR (primary owner of Dubai World) and the Dutch Crown Prince were to discuss the issue on 20 January. Post has no further information at this time.

#### Mortgage Lenders Amlak and Tamweel are Effectively Bankrupt

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15. (C) In a government decreed merger, mortgage lenders Amlak Finance and Tamweel (jointly controlling over 60 percent of the Dubai mortgage market) have been subsumed by the UAE Ministry of Finance-controlled Real Estate Bank. According to multiple post contacts, both lenders are essentially bankrupt and have had to shut down all lending activities. With a combined mortgage book valued at USD 20 billion, there are no clear indications as to what percent of the book is approaching toxic status. According to one senior Amlak executive, however, only 50 percent of outstanding loans are for completed development.

#### Rumors of Sell Offs and Layoffs

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16. (C) In both public and private venues, post continues to hear of ongoing layoffs and sell offs affecting both Dubai Inc. and privately held businesses. Several sources recently commented on large scale layoffs in Tatweer's (part of parastatal Dubai Holdings) Dubailand and other entertainment businesses, with all noting the division has effectively shut down. According to one UAEG Ministry of Labor contact, roughly 1,500 residency visas per day have been cancelled since November 2008. Reinforcing rumors of Istithmar (another subsidiary of Dubai World) liquefying assets, recent press noted the parastatal is looking for a buyer for US retailer Barneys New York (acquired by the Dubai investment fund two years ago).

#### Comment

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17. C/NF) Though far from conclusive, the indications appear to suggest that Dubai is scrambling to raise cash by slashing operating costs and selling off assets. Recent press reports have listed upwards of 80 Dubai projects that have either been cancelled or significantly delayed, including iconic ones such as the large Palm Deira island and the Trump Tower hotel on Palm Jumeirah. Whether it will generate enough funding (without Abu Dhabi's assistance) is up for debate. While de Boer's estimates of outstanding debt and upcoming capital requirements were subsequently dismissed as overly pessimistic by senior UAEG officials, post believes they are likely more on target than the "official" disclosures. As noted, McKinsey has long been the consultant of choice for Dubai's brand-name conscious official and parastatal leaders and the consultancy's intimate access to Dubai Inc. balance sheets likely provides them one of the best views on the state of the local economy. If McKinsey is accurate, Dubai could be in for a very long and tough economic "correction." End Comment.